

SEE WHAT'S NEW AND NOTEWORTHY IN PRIVATE EQUITY THIS WEEK /// ISSUE 38

- 1 Russian Mobile Gadget Retailer Seeks PE Instead of IPO**
  - IPO market blues
- 1 Aerospace & Defense M&A Activity High; PWC**
- 2 M&A Mega Deal: Xstrata and Glencore**
  - Roundup of latest news
- 2 LPs Five Most Favored Fund Types 2012; Preqin**
- 3 Biotech and Pharma: Improved Returns in 2011**
  - HBM Pharma/Biotech M&A Report
- 4 Canada's VC Activity Growing Again**
  - New report from CVCA and Thomson Reuters
- 5 Quote of the Week: VCs as Mentors**

# RUSSIAN MOBILE GADGET RETAILER SEEKS PE INSTEAD OF IPO

This week, Dennis Ludkovsky, chief executive of Russia's leading mobile phone retailer Svyaznoy told [IFR](#) that he is looking for a private equity buyer rather than going ahead with IPO plans. The Russian entrepreneur plans to sell up to thirty percent of the company in PE buyout. Svyaznoy sells mobile phones and provides banking services in 776 Russian cities. According to IFR, research analysts valued the company at between USD1.8bn and USD2.6bn late last year when the firm was planning an IPO.

The news comes as yet another Russian company said that it had shelved its IPO plans in recent weeks. Kaspersky, the Internet security software company, is not pursuing an IPO that it had announced last year, according to both [Reuters](#) and Forbes. Kaspersky recently bought back shares from its PE backer General Atlantic Partners, as well as other smaller investors, reports Forbes this week.

Only one Russian company has floated in the past six months, RusPetro, an oil exploration company, according to FT blog [beyondbrics](#).

## AEROSPACE & DEFENSE M&A ACTIVITY HIGH; PWC

The mining industry might be providing huge fees M&A specialists, but so is the global aerospace and defense sectors, according to PWC. M&A totals reached a record level in 2011, according to [Mission Control](#), a quarterly analysis of M&A activity. Aggregate deal value reached USD43.7 billion supported by 341 deals in 2011, compared to total deal value of USD21.9 billion and 332 deals in 2010. The 2011 record surpassed the previous A&D deal record of USD42 billion in 2007.

### Fast facts by Dealmarket Digest

- Largest deal was the USD 16 billion transaction
- A total of six mega deals in 2011 compared to two in 2009.
- Larger deals driven by sales of slower-growth defense businesses and private equity
- Smaller deals driven by a desire to acquire growth
- U.S. entities were involved in the vast majority of A&D deals in 2011
- All but one of the six mega deals involved both a U.S. acquirer and a U.S. target.
- All of the European outbound deals above the \$50 million threshold in 2011 were for North American targets

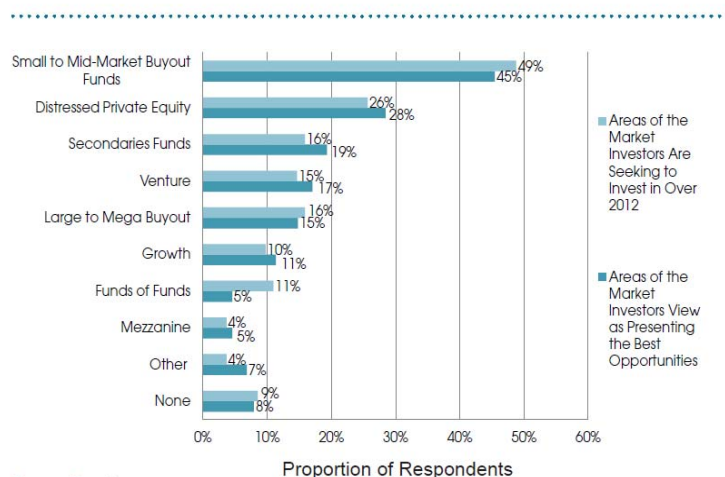
# M&A MEGA DEAL: XSTRATA AND GLENCORE

News agencies and corporate finance publications are generating a lot of "ink" covering the mega-merger between mining and commodities trading companies Glencore and Xstrata. One news [outlet](#) calls it a "bankers bonanza" due to the large fees involved, estimated to be USD 140 million, while [Investment Week](#) speculates that this may be the first of many such large-sized transactions in mining. A good overview on what has happened so far is found in Reuters a video [broadcast](#). It reports that Glencore, which already owned one third of Xstrata, aims to buy the remaining two thirds of Xstrata for USD41 billion. The new deal will be the "biggest merger deal in the mining sector" ever according to the report. There is a discussion on the advantages to each company, Glencore gets more mining assets, which means it can theoretically simplify trading, while Xstrata, which already uses Glencore as a marketing outlet for its minerals, can solidify that relationship. The report also discusses the fact that certain shareholders oppose the merger and anti-trust regulators may put hurdles in the way of the mega-deal.

# LPS FIVE MOST FAVORED FUND TYPES 2012; PREQIN

The latest [Preqin Investor Outlook](#) reports that investors in PE will remain cautious. But this group is also planning on making new commitments. Three-quarters of survey respondents said they are planning to make new investments or re-up in the coming 12 months. Diving deeper into that topic, Preqin says that a large majority, 84% of investors that are planning to actively commit to funds in 2012 will consider forming new relationships this year, while 46% will consider investing in a fund before it holds a first close.

Investor Attitudes to Different Fund Types At Present



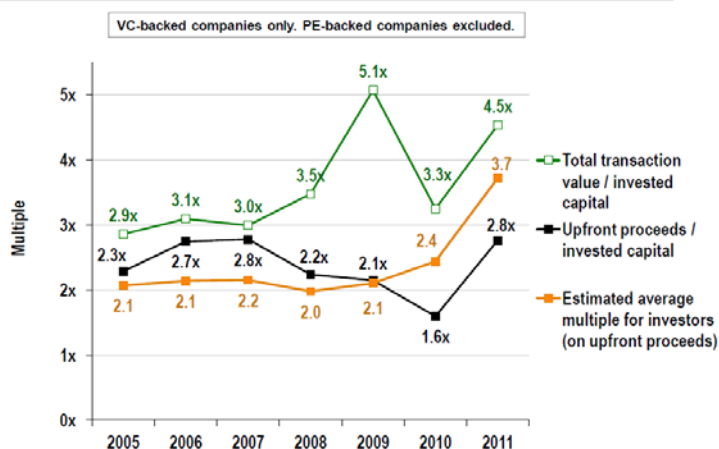
Source: Preqin

*Dealmarket Digest* decided to highlight here the fund types that are most attractive to investors in 2012. Clearly, small to mid-market buyout funds are on top, with 45% of respondents naming these fund types as “presenting good opportunities in the current market”. Distressed private equity and secondaries funds are also hot, with over a quarter (26%) expecting to allocate capital to distressed funds in 2012 and 16% seeking to invest in secondaries opportunities. Venture capital and large buyouts take fourth and fifth place. One further note by Preqin is that the fund types presenting attractive opportunities vary depending on which region they are targeting.

## BIOTECH AND PHARMA: IMPROVED RETURNS IN 2011

HBM Partners, an active investor in the life sciences sector, says that 2011 was a “very strong” year for companies in biopharma, with a high level of M&A activity, large and small. Its latest [report](#) says that the average return multiples to investors (based on upfront payments) for VC-backed company sales jumped to 2.8x (up from 1.6x in 2010). If further contingent payments, the potential multiple reached 4.5x. The authors say that 2011 will be recalled as a “good year by the venture capital community”.

Return Estimates of Venture Investors from Private Biopharma Trade Sales



Source: Trade sales of VC-backed pharma/biotech companies US, Canada and Europe

Transaction volume from the sale of 71 North American and European biopharma companies reached USD64.1 billion. If contingent payments are included, the deal volume in 2011 reached USD70.9 billion.

There was a slowdown of M&A activity in the second half of 2011, but the transactions announced at year-end or just after that, have HBM thinking that 2012 might be another good M&A year.

The reason for optimism at HBM is it believes there are plenty of companies “looking for an exit” and quite a number of buyers with deep pockets (large and mid-sized pharma companies) who are acquiring in order to expand their commercial and development portfolios or geographic reach. “In the US, where the IPO window has opened for high-quality biopharma companies, US sellers will be in a better position to demand prices that reward them for the risks they have taken,” concludes the report. (Image Source. [HBM Partners](#))

# CANADA'S VC ACTIVITY GROWING AGAIN

Activity in Canada's VC community hit its highest level in four years in 2011, but it was still substantially below the level recorded in 2007, according to the latest statistical [report](#) released by CVCA-Canada's Venture Capital & Private Equity Association and its research partner Thomson Reuters.

Last year VCs invested across Canada some 1.5 billion in Canadian dollars, up 34% from the year before. "Increased dollars invested went to 444 domestic firms in 2011, up 24% year over year," says the report.

Canada is seeing a rising level of entrepreneurship, business incubator activity, and R&D incentives, notably Canada's Scientific Research and Experimental Development fund, which is driving demand for capital. The money flowed to the IT sectors first, then life sciences and clean tech in third spot.

The study also found that growth may be limited due to the fact that new commitments to Canadian VC funds were almost unchanged between 2010 and 2011, with only 1.0 billion Canadian dollars raised. Funds raised in the American VC market, in contrast, rose 32% year over year. The authors say that "stalled" fundraising has contributed to low levels of Canadian VC deal capitalization.

The 2011 statistics reveal that Ontario and Québec, the country's two most populated provinces, were tied, with both absorbing 36% of all investments, or \$550 million invested and \$549 million invested, respectively. Deal-making was also up in British Columbia, Alberta, and Atlantic Canada last year.

The report found the activity of foreign VC funds in Canada increased in 2011. Foreign activity brought a total of \$430 million to deals, up 38% from 2010, reflecting the highest level of cross-border investment in four years.

## QUOTE OF THE WEEK

***“We're in an entrepreneurial service business. Our job is not only to deploy capital but to provide a range of services for entrepreneurs. We work incredibly aggressively with them.”***



*Image Source: FirstMark Capital*

**Who said it:** Rick Heitzmann, a Founder and Managing Director of [FirstMark Capital](#). He focuses on investments in the emerging

**In Context:** In an article entitled, The new money men, a reporter from Crains New York writes that the current crop of successful VCs are almost “married” to the entrepreneurs they are financing. Heitzmann is quoted with his service oriented statement as being exemplary of this new type. These younger VCs are not financiers, “they are mentors, rabbis and consiglieres, all wrapped up in one”. They are contrasted with the type of venture capitalists who “bankrolled companies like Digital Equipment and Intel” who met with management mainly at board meetings, while “the second boom's VCs are practically married to their investees, networking, strategizing and helping them make hiring and firing decisions.”

**Where we found it:** [Crains New York](#)

The Dealmarket Digest empowers members of Dealmarket by providing up-to-date and high-quality content. Each week our in-house editor sifts through scores of industry and academic sources to find the most noteworthy news items, scoping trends and current events in the global private equity sector. The links to the sources are provided, as well as an editorialized abstract that discusses the significance of the articles selected. It is a free service that embodies the values of the Dealmarket platform delivers: Professional, Accessible, Transparent, Simple, Efficient, Effective, and Global.

To receive the weekly digest by email register on [www.dealmarket.com](http://www.dealmarket.com).

Editor: Valerie Thompson, Zurich

### **DealMarket**

is the first port of call for private equity professionals who are looking for simplicity, choice and greater speed in how they access the marketplace. Just as real estate portals have improved the way people access the property market, DealMarket does the same for private equity and corporate finance. It is an online platform designed to bring transparency, efficiency and value to the business of connecting buyers, sellers, and advisors. There is no pre-screening of deals, giving you an instant, unfiltered view of the market. If you are a buyer you can seek out deals, investment ideas and opportunities for free, tailoring your search according to exactly what it is you are looking for. If you are a seller, you can post a deal for the price of a cappuccino a day. If you are an advisor it is a quick and cost effective way of promoting your expertise to a global audience. If you are an investor and poor management of your deal flow data is holding you back, use our deal flow data management tool [MyOffice@DealMarket](mailto:MyOffice@DealMarket). It's easy to use and free of charge.